

Market Based Financial Sector Development Scope of Work
NOTE – This SOW requires customization for USAID Mission Use

I. Introduction

The goal of this Market Based Financial Sector Development scope of work is to promote the development of financial institutions, products, and policies, with specific focus on better serving the “missing middle” -- the people and businesses served neither by microfinance institutions (MFIs) nor by the formal banking sector. Missions are increasingly focusing on MFI development and commercialization, and on expanding the type and availability of financial services to small and medium enterprises (SMEs). To complement this work, this market-based approach takes a demand and client orientation to the SME finance gap, and then uses these findings to design SME finance interventions. This approach contrasts to a more purely supply oriented, institutional approach, but does require information on the supply of financial services to identify gaps in the demand and supply. This market-based process relies heavily on client research and stakeholder involvement to develop strategies on how to support private and public sector groups to provide further products and services to this missing middle group and create a better legal and regulatory environment to support financial sector deepening.

Core elements of the Market Based Financial Sector Development scope of work include the following: (See Attachment I for process flow.)

- An overview of the economy, the financial sector infrastructure, informal financing mechanisms, prudential norms, and so on (using the World Bank/IMF Financial Sector Assessment Program (FSAP) studies, when available – see <http://www.imf.org/external/np/fsap/fsap.asp#o>);
- Market research to assess customer demand for financial services;
- A participatory process that mobilizes entrepreneurs and financial service providers to respond to the market research with new business development and that produces an agenda for legal and regulatory reforms by the government.

The desired outcome from implementing this market-based process is growth in sustainable profit-driven businesses that supply financial services to the missing middle. The guidance that is provided during the business planning and implementation stages should also yield better-developed business skills for entrepreneurs that pursue these growth opportunities. At the same time, this process will result in better working relationships between government officials and financial sector executives and entrepreneurs.

II. Scope of Work

The work under this task order includes the following six tasks:

Task 1: Review Similar Activities and Modify Approach

The contractor will review the process outlined by this scope of work (and illustrated on Attachment I) in the context of similar efforts that are used elsewhere in the developing world. The contractor will make recommendations for improving this process, and present these to the mission undertaking the task order.

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The contractor will also work with the mission to ensure that important pre-conditions of the process are met. These include: a liberalized financial sector, political will for reform, an adequate working relationship between the government and the private sector, and an environment where market-based reforms are in place or in process.

Task 2: Create National Platform

The contractor will create a national “platform” of financial sector stakeholders consisting of financial executives and entrepreneurs, plus related business associations, NGOs, think-tanks, donors, government officials, and parliamentarians. The contractor will engage them in this process so that they take ownership of it. This will require the contractor to meet with stakeholders to understand their goals, motivations and attitudes. The contractor must clearly communicate the benefits that would emanate from participating in the process, in terms of increased intermediation in the financial sector and more profitable business opportunities. Stakeholders are expected to be involved in directing the process, providing resources and information to support it, and championing the activities that flow out of it. This step will require trips by each of the team members.

Task 3: Review Financial Sector

The contractor will conduct an overview of the financial sector, and review the institutions and trends, the legal and regulatory environment, prudential norms and relevant economic information. This review provides the baseline and background information that will be used to identify where there are gaps in financial services and why they exist. The review should cover the topics listed on the attached outline (Attachment II), with the emphasis varying across the topics based on their relevance to serving the missing middle. The extent of this review will depend on whether there has been a recent FSAP or similar study. This review will be based on available secondary information and on input and information supplied by the stakeholders. The review will require one week of preparation and report writing and two weeks of research in the country. The contractor will present findings from the review in a formal presentation to the platform of stakeholders and summarize the results in a paper.

Task 4: Identify Business and Reform Opportunities

The contractor will conduct qualitative research focused on the missing middle constituents. The contractor will first develop the research methodology and consumer topology. Based on these, the contractor will conduct a minimum of 30 interviews. The contractor will analyze the findings to develop a preliminary market segmentation, analysis of the most critical financial service gaps and opportunities, and initial business concepts and reform activities that would address the gaps. See worksheet recommended for this task in Attachment III.

The market segmentation will be a rough landscape of groupings of consumers by their financial service needs. Consumers profiled would include small and medium sized

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businesses (SMEs) and households whose financial service needs exceed what MFIs offer but which are not met by commercial banks. Delineation of the market segments may be based on income, geographic location, sex and other characteristics.

The initial business concepts would consist of new product opportunities based on the financial service gaps and client attributes surfaced in the survey. They may be drawn from best practices in other countries or from creating new products or product modifications in the present country. Reform recommendations would go one step further to address opportunities to improve the legal and regulatory environment supporting the financial sector.

The contractor will present this first approximation of the supply-demand problem to the stakeholders and discuss preliminary business opportunities. The goal is for individual stakeholders to start championing some of the opportunities. Follow-on work would support these champions in developing action plans to pursue new business or reform initiatives (to start in Task 6 and continue under subsequent mission-driven initiatives). The information from the qualitative research may not be complete enough to illustrate the business opportunities and spur new initiatives. In this case, the contractor should use this information to facilitate discussions by the stakeholder group to clarify their priorities and proceed with the follow-on quantitative research outlined in Task 5.

Task 5: Refine Business and Reform Opportunities

In order to better identify the gaps in financial service provision, the contractor will conduct survey research. This will involve the following steps:

- Develop methodology for survey content and distribution
- From the platform of stakeholders, identify resources to assist in conducting the interviews, such as students and representatives from NGOs
- Train interviewers
- Field test survey and selection approach
- Distribute and collect surveys
- Tabulate results and draw conclusions

The survey will provide further description about the issues and a statistically representative basis from which to quantify the potential size of the gaps. For example, if a major gap is identified in long-term equipment leasing, the contractor will use the demand information to calculate the estimated size of the long-term leasing market. Using this information, the contractor will develop refined business concepts and will produce a more complete consumer landscape of needs and gaps. The contractor will present this information to the stakeholders and use it as a basis for action plan development.

This step is expected to take four weeks, spread over four months, with one or two incremental trips for the team members involved.

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Task A.6: Support New Business Concepts and Reforms

The contractor will work with the private sector to develop business plans based on proposed business concepts and on results from the survey. These plans will further define target markets as well as the positioning and attributes of new products and technologies. Preliminary technical assistance will help identify new products and technologies, and will assist private sector entrepreneurs to develop business strategies, obtain financing, and surmount other operational and policy barriers. Technical assistance may also be provided to create support businesses such as think tanks and associations, with the goal of increasing the level of market knowledge and the influencing ability of the private sector players. More extensive support in these areas will be included in follow-on projects initiated by the mission. The contractor will also work with the mission and government officials to use conclusions of the platform to develop a plan for further reform in the legal and regulatory environment. It is expected that the mission will proceed with follow-on activities to support the champions that emerge from this process in both business development and reform initiatives.

This step is expected to take three weeks, spread over two months, with a potential incremental trip for the team leader.

II. Extensions

There is the possibility that USAID may request extensions related to the work called for in this task order. Such extensions could include more detailed review and analysis of the financial sector, forums and conferences, and pilot studies.

III. Bench-Marks

The contractor will have frequent discussions with the Cognizant Technical Officer (CTO) for this project. The following bench-marks are important for the successful completion of this delivery order:

- a. Complete review of the Market Based Financial Sector Development process; mission approves revisions. Revised approach documented and submitted to mission. (Task 1)
- b. Assemble national platform of stakeholders. (Task 2)
- c. Complete financial sector assessment report.(Task 3)
- d. Complete qualitative research; develop and present first approximation of potential business concepts to national platform of stakeholders. Summarize results of research and stakeholder decisions in written and oral reports.(Task 4)

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- e. Complete survey and analysis of results; present salient aspects of research to stakeholder group; document summary of research and outcome of stakeholder response.(Task 5.)
- f. Complete initial business plans (done by financial executives and entrepreneurs; facilitated by contractor) and next steps for legal and regulatory reforms and follow-on work to be conducted by the mission. (Task 6)

IV. Level of Effort and Position Descriptions

The total level of effort anticipated for this task order is as follows: [not included here]

Level I Financial Analyst (financial institution development)

Level I Marketing Expert (financial institution development)

Level II Financial Analyst (financial institution development)

The Level I Marketing Expert must have extensive marketing experience, be knowledgeable in international developmental finance, and be able to mobilize and motivate government leaders, private sector executives, and entrepreneurs. The marketing expert needs to be fluent with marketing research methodologies, consumer segmentation, product and brand development, and business planning. This expert will be responsible for leading the team, shaping the process, communicating with USAID, and delivering the final reports and model approach.

The level I financial analyst must have extensive financial sector experience in both developed and developing countries. This Analyst must be adept at performing financial sector assessments, and must have a very good understanding of what has worked and not worked with efforts to increase access to financial services for SMEs and similar income households. This Analyst must have experience in developing private sector-led aid initiatives as well as in working with government officials to gain support for and implement reforms.

The level II financial analyst must have extensive experience in the private sector and in international developmental finance, with a specialized understanding of the barriers and successes associated with efforts to develop financial services for SMEs and missing middle households. This analyst must be adept at performing financial sector surveys and working with senior government, donor, NGO, and private sector officials. At least one of the two financial sector analysts needs to have extensive experience with USAID or similar donor organizations and with financial sector regulatory reform.

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Attachment II: USAID Banking Sector Review Activities

<i>General Areas of Activity</i>	<i>Sub-Categories</i>
<i>Financial Sector Infrastructure</i>	<ul style="list-style-type: none"> • Legal framework including land registry, usury laws, bankruptcy laws, collateral seizure proceedings • Regulatory and supervisory capacity for banks, non-bank financial institutions (NBFIs) and informal institutions • Payments systems • Accounting framework • Professional associations • Rating agencies, credit bureaus • Deposit insurance • Miscellaneous areas relevant to financial sector infrastructure—telecommunications, postal, safekeeping
<i>Economic Factors and Indicators</i>	<ul style="list-style-type: none"> • Economic Growth Status • Trade Balance/Policies/Partnerships • The Fiscal Situation: taxation, govt. debt, expenditures • Government intervention re. Credit and credit policies • Key economic growth initiatives or shocks • Inflation • Monetary Management and Monetary Instruments: money creation, financial intermediation, reserve requirements • Interest Rate Control • Exchange Rate Policy
<i>Financial Sector Development Indicators</i>	<ul style="list-style-type: none"> • Depth • Commercial bank Credit • Private Sector Credit
<i>Banking & NBF Structure and System Profile</i>	<ul style="list-style-type: none"> • Profile of ownership structures and institutions in the formal and informal sectors and relative concentrations, including: <ul style="list-style-type: none"> Commercial Banks Savings and Loan Associations Postal savings Credit unions Public-Sector Banks Pension Funds Insurance companies Capital Markets Informal Finance: money lenders, trade credit, etc. • Recent restructuring initiatives • Diversity of products, level of competition, new product development • Access to basic savings and credit instruments • Governance and management issues • Collaboration between private financial sector & national authorities
<i>Financial Sector Development Based on Prudential Norms</i>	<ul style="list-style-type: none"> • Capital Adequacy • Asset quality • Management Capacity • Earnings • Liquidity • Foreign exchange risk • Operating environment including coping behaviors • Transparency and disclosure • Soundness of non-bank and informal sector organizations • Sensitivity to market risks

Attachment III: Serving the Missing Middle
Worksheet to Track Initiatives

Market Segments Described	Financial Service Gaps	New Products & Technologies to Address Gaps	Institutional Development to Support New Products & Technologies	Legal and Regulatory Reforms to Support New Products & Technologies